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Abstract

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Keywords

child-care, employee benefits, productivity

Disciplines

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Comments

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Child-Care Programs That Make Sense

The best employers provide child-care resources to their employees, thereby reaping the benefits of happier and more productive workers

by **Janet H. Marler**
and **Cathy A. Enz**

THE MASSIVE MOVEMENT of women from the home into the workplace may someday be described as one of the most significant social revolutions of the twentieth century.¹ In 1955, 60 percent of American households

¹T. Espenshade and Tracy Ann Goodis, *America in Transition: Benefits for the Future* (Employee Benefit Research Institute, 1987), p. 11.

consisted of a working father, a mother at home, and two or more children. By 1986 such "standard" households constituted only about 4 percent of U.S. households—a dramatic change over a 31-year span.² Women and minority members are the fastest-growing segment of the work population. A 1986 census revealed that 44 percent of workers were women, and 54 percent of those women had

²Ibid.

children under the age of six. Neither our culture nor our social-support structures have kept stride with that revolutionary change.

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The companies that acknowledge the consequences of that social change are the ones that will have the competitive edge.

Companies can easily begin to benefit by providing what is most needed by many employees: a child-care program. As the percentage of women in the work force has grown, so has the demand for adequate child care. Yet a 1987 Bureau of Labor Statistics survey found that only 1.6 percent of employers with 10 or more employees offered employer-sponsored child-care programs, and only 3.1 percent assisted with child-care expenses.

A *Fortune*-magazine survey of 400 men and women with children under the age of 12 found that child-care problems are highly significant predictors of absenteeism and unproductive work time.³ The need for child care is a family problem, not just a women's problem. A study of 1,600 employees in the Northeast found that fathers are as likely as mothers to report "a lot of stress" in balancing work and family responsibilities.⁴ Companies that can offer some form of employee assistance in child care stand to benefit in the selection and retention of quality employees. High morale and loyalty are also positive outcomes of "family-friendly" policies and programs.

There are many ways for an operation to provide a child-care program. The various options, summarized in Exhibit 1 (see the chart on the next page), are grouped under three headings: (1) offering services, (2) supplying information, and (3) providing financial support. Of the three, supplying information is the most popular. In a recent survey of U.S.

companies, 74 percent expected to offer child-care resources and referral services by the year 2000.⁵ There are, however, good reasons to examine all the options to determine which make the most sense for an individual property or for the company as a whole.

Offering Services

"Sponsored services" may include on-site day care, after-school care, summer camp, or sick care. All involve a commitment to *provide* care rather than help locate it or offer financial assistance for it. Sponsorship may be by individual enterprises, consortia, or public-private partnerships.

On-site day care. Three national studies found that managers believe their companies' sponsorship of a day-care center results in impressive paybacks from improved productivity and morale and from reduced absenteeism, tardiness, and turnover.⁶ One general manager from a nationally recognized hotel chain predicted that if her hotel offered child-care services, productivity would increase 50 percent. There are also examples of individual hotel properties that have decided to provide on-site child care with positive results. The Opryland Hotel in Nashville has an on-site center that operates from 5:00 AM to midnight. Employees working odd hours may also use it as a supplement to their regular child-care arrangements. Turnover among employees using the center has decreased by 19 percent.⁷

On-site day care can be an effective way to attract and keep employees who work nontradi-

tional hours. Hospitals, which sponsor about 7 percent of the on-site day-care centers in the United States, have used this benefit effectively to recruit nurses during labor shortages. Their child-care centers offer nighttime or round-the-clock child care, which is important to accommodate the work-shift needs of this employee group. Many hotel employees have similar needs.

Another benefit to consider is the positive media attention that may not only enhance a company's public image but also positively affect recruiting initiatives. Marriott is often recognized in business publications for its on-site day-care center, opened in 1989 at its corporate headquarters.

With such advantages, why aren't there more on-site day-care centers in individual properties and corporate headquarters? Cost, liability, and employee equity are the reasons cited most often. Employee needs, their ability to pay, and company size are additional considerations. While one-time development costs are financed by employers, annual operating costs are usually funded by parents. Tuition can run from \$75 to \$200 a week for each child, which is beyond the financial reach of most hourly-wage employees.

Development cost is cited as a major disadvantage of on-site day care. However, there is little evidence to support that claim. The benefits derived from a day-care investment are hard to measure with conventional accounting systems. That problem, coupled with limited top-level corporate support, lowers the likelihood that accurate or relevant information is extracted.⁸ When such a center is created, however, the results are

³L. Thomas and J. Thomas, "The ABCs of Child Care," *Sloan Management Review*, 30 (Winter 1990), pp. 31-41.

⁴Op. cit., p. 33.

⁵Susan Seigler, "Champions of Child Care," *Working Mother*, June 1991, pp. 54-55.

⁶Dana E. Friedman, "Work versus Family: War of the Worlds," *Personal Administrator*, August 1987, pp. 36-38.

⁷Kathy Seal, "Child-Care Centers Finding Their Place in the Lodging Industry," *Hotel and Motel Management*, 205, No. 1 (December 17, 1990), p. 1.

⁸The New York-based Families and Work Institute estimates that 46 percent of companies that offer a family-friendly policy have no CEO involvement.

EXHIBIT 1
Child-care options

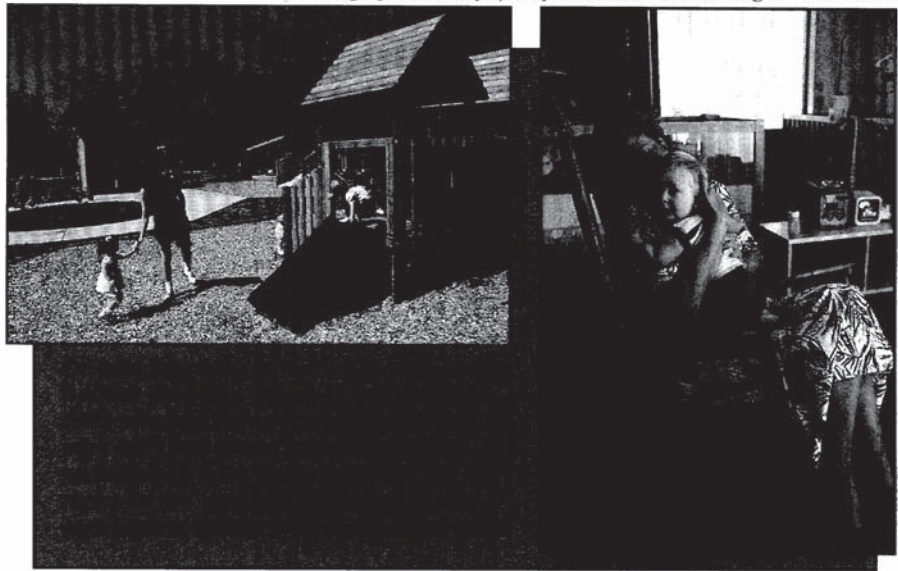
OPTIONS	DESCRIPTIONS	PROS	CONS	EXAMPLES
<p>Offering services</p> <ul style="list-style-type: none"> • On-site day care • Consortium-sponsored day care • Public-private partnerships 	<ul style="list-style-type: none"> • Care is provided on or near the employer's property, perhaps by a contracted operator. • Employers join forces to finance day care, frequently run by a contracted operator. • The employer joins forces with a public agency. 	<ul style="list-style-type: none"> • Decreases lateness, absenteeism, and turnover. Helps recruitment.* • Reduces costs and liability. • Reduces costs. 	<ul style="list-style-type: none"> • May be expensive for the employee. Its quality must be monitored. May raise issues of co-worker equity. • Policy and procedures must be agreed upon. Raises co-worker equity issues. Location may pose problems. • Same as above. 	<ul style="list-style-type: none"> • Opryland Hotel • Marriott headquarters • Sands Hotel, Casino, and Country Club • Mauna Lani School • Twin Towers Hotel and Convention Center
<p>Supplying information</p>	<ul style="list-style-type: none"> • The employer provides information about community services, helping the employee learn about what kind of care to look for, where to look, and how to evaluate it. The employer may hire a full-time administrator and may offer seminars and family support. 	<ul style="list-style-type: none"> • Low cost. No liability. Serves many employees. Serves communities. 	<ul style="list-style-type: none"> • Narrow in scope. Doesn't lower absenteeism. Isn't a recruiting tool. 	<ul style="list-style-type: none"> • Marriott • General Mills
<p>Providing financial assistance</p> <ul style="list-style-type: none"> • Flexible spending accounts • Cafeteria benefit plans • Subsidies and discounts 	<ul style="list-style-type: none"> • The employee pays for child care with before-tax dollars. • Employer sets total of benefit package and available options and employees select their own levels of contribution (allocation) for the benefit(s) desired. • The employer subsidizes the child-care provider, negotiates a discount with a day-care center, or reimburses the employee. 	<ul style="list-style-type: none"> • Low cost. Reduces the employee's taxes. No equity/co-worker issues. • Low cost. Employees can select their child care. No equity issues. • Low cost. Employees can select their child care. 	<ul style="list-style-type: none"> • Restrictive regulations. May be hard for small employers to administer. • Confusing to employees. Complex to administer. • Doesn't provide for evening-shift workers if community centers are used. Considered taxable income. 	<ul style="list-style-type: none"> • International Dairy Queen • General Mills • Brinker-International • BBD Consultants • KFC

*All options may provide these benefits by reducing the employee's worries and obligations about child care.

encouraging. Lost Arrow, a clothing manufacturer in Ventura, California, claims its day-care center is actually profitable. Operating costs in 1989 of \$232,000 were offset by an estimated \$242,000 in savings from lower turnover and from state and federal tax reductions.

The cost of on-site day care may seem high when compared with not providing a child-care benefit at all, but compared with other child-care options, it may provide the better cost-benefit ratio. Out-of-pocket expenses may be limited if there is no need to purchase a site (that is, if unused space exists or additional leased space is available). And once the site is provided, a professional day-care operator can manage the center. Professional operators provide equipment and insurance. As an example, Childcare Wonderland, a California-based operator, creates child-care centers and provides playground equipment, furniture, and toys. Corporate Child Care Management Service, a Nashville-based operator, assists companies in establishing on-site centers as well as staffing and equipping them.

Insurance coverage, typically borne by the day-care operator, can address the concern over liability. PAL Corporate Child Care, a child-care management and consulting firm based in Silver Spring, Maryland, has involved parents and employees on the board of directors of its day-care centers and instituted a parent-cooperative structure. They found that by involving parents, they could reduce their insurance costs. Organizations can get further protection from liability by incorporating the day-care facility. Despite the much-publicized anxiety over liability, legal experts at San Francisco's Child Care Law Center say there is virtually no liability exposure in company-subsidized



child care or on-site child care that is managed and owned by an outside firm.⁹

There may be a concern that providing a child-care center will cause resentment among employees without children. Some studies show that that concern is unfounded. In fact, those without children can benefit indirectly, as reduced tardiness and absenteeism relieve them from the burden of picking up the slack. On the other hand, if the annual tuition is overtly subsidized as an additional benefit of employment, then some employees may see it as unfair. The owners of the Woodlock Pines, a resort located in the Pocono Mountains of Pennsylvania, found that when they began partially to subsidize the tuition for their on-site day care, employees not using the center felt it was not fair. The owners believe that had the day-care facility been free of charge from its inception, the problem might not have occurred.

A company's employees may not be able to afford or even prefer on-site care. Factors that seem to affect the employee's decision involve the age of the child, the

income level of the family, the age of the parent(s), and the household status (e.g., single-parent household, two-income household, etc.). Surveys suggest that the most popular form of child care is that provided by a relative. In single-parent households it is the preferred choice because it is often the lowest-cost alternative. It is also the preferred choice for children under the age of two. However, the use of day-care centers has continued to grow. Based on a comparison of women surveyed in 1983 and in 1988, the use of day care has increased from 1.7 percent to 10.6 percent.¹⁰

Company-sponsored day-care centers have high tuition because they demand quality care for insurance reasons and to enhance their corporate image. High quality necessitates a low child-to-provider ratio, thereby increasing the cost per child. Consequently, if most of a company's employees earn hourly wages, an on-site center may not work unless there is some form of financial assistance. The Sands Hotel, Casino, and Country Club in Atlantic City subsidizes some

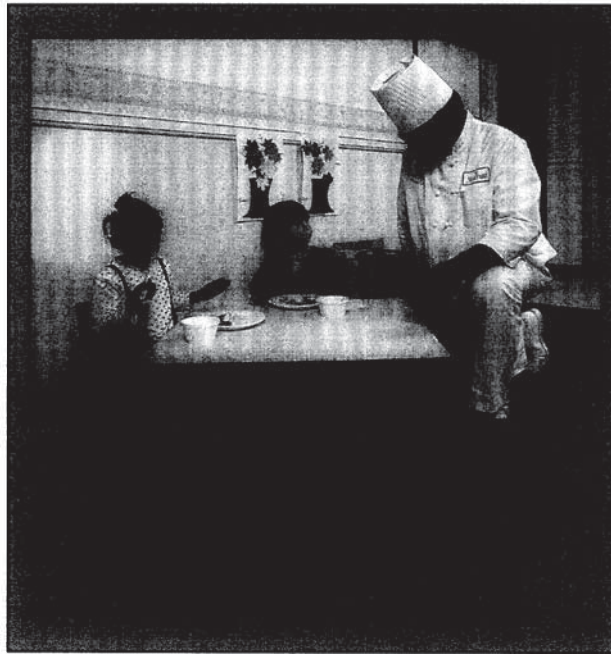
⁹Thomas and Thomas, *op. cit.*

¹⁰J. Veum and P. Gleason, "Child Care: Arrangements and Costs," *Monthly Labor Review*, October 1991, p. 11.

employees who use the on-site day-care center. The company did not want the center to benefit only highly compensated employees. There are also governmental subsidies available to offset low-income families' day-care costs.

A final point regarding on-site day care is that a property or operation may be too small to support a day-care facility. Beth Kuhn of Work Family Directions, a Boston-based child-care consultant, estimates that a critical mass of about 2,000 employees is needed to support on-site day care. That suggests that a large corporate headquarters may support a center, but an individual property may not. Diane Huggins of Corporate Child Care Management Service says the number of employees required to support a center may be lower if a large percentage of them are women or are in two-career families with young children. Without such a critical mass, an employer might consider joining a consortium.

Consortium-sponsored day care. A consortium is created when a group of employers, usually corporations but also associations, organizations, and government entities, get together to join their funds, time, and energy to create a child-care service to benefit their employees.¹¹ Typically, the consortium members jointly finance the creation of a new corporation that establishes and operates an off-site or near-site day-care facility that's open to the community as well as to the consortium members' employees. The approach may be more attractive to small and medium-size properties and to



properties located in office parks or downtown sections of large cities. Since the option is accessible to a wide range of companies, it has become a popular one.

Consortia offer many of the same advantages as on-site care, such as a range of services, nontraditional schedules, and a convenient location, and many of the same positive effects on morale, turnover, absenteeism, and productivity. For small operations it provides a large base of employees to create the critical mass necessary to make the service viable. Moreover, the members of the consortium benefit from sharing the resources needed to make a venture successful, such as financial capital, space, and personnel experienced in planning, hiring, training, and administering. Three Hawaiian hotels combined financial resources to fund the cost of the \$1.5 million Mauna Lani School, which now serves their child-care needs. The investment has enhanced the properties' employee-recruitment efforts.

Like on-site centers, day-care sites established by consortia are

generally run by a professional child-care operator. The consortium exercises its influence via the members of the day-care center's board of directors, which comprises key consortium personnel. However, the day-to-day operations, insurance, and profitability are the responsibility of the operator. Professional day-care consultants and operators are often involved in forming consortia. One of them, Laura Peterson of Cornerstone Child-Care Centers, reports: "More and more companies are coming to us for help in setting up consortia."¹²

Cost depends on the consortium members' agreed-on level of involvement, and on whether members expect only to provide start-up costs or whether they expect to provide on-going operating support. In either case, sharing the costs and pooling resources usually lessens the burden, and members can share in fund-raising activities as well. As recommended previously, a financial evaluation requires a projection of the costs and the expected benefits. The lack of quantitative data on the benefit side, however, makes the task challenging.

The disadvantages of a consortium are largely the same as those of individually sponsored on-site care. In addition, however, for companies with multiple locations, a consortium probably won't meet the needs of all their employees. Members may also have difficulty meshing different corporate cultures and agreeing on operating hours, location, cost, policies, shared responsibilities, and procedures. Strong leadership and accountability are required.¹³

¹¹Ruth E. Thaler-Carter, "Team Up to Meet Child-Care Needs," *HR Magazine*, March 1990, pp. 44-48.

¹²Thaler-Carter, p. 48.

¹³*Ibid.*

Other services. A small operation or individual property may consider other solutions to child-care problems that are modest in scale but have a positive impact. The company could sponsor a summer camp, or provide before- and after-school programs—for example, in collaboration with the YMCA. It may also be possible to provide day care for sick children by following the model of those hospitals that have started to offer sick-child day-care services. Individual properties might consider such a service for employees and guests. Several companies offer to pay for in-house baby-sitting for children who are ill and cannot attend their normal day care. Other companies have started an emergency child-care center. Those kinds of programs can be supported by one corporation or a group of centrally located corporations.

In the past, the Bethesda, Maryland, Marriott offered a summer camp. The hotel provided the facility along with camp counselors; parents paid tuition to cover operating costs. This type of program is particularly beneficial for companies where employees have predominantly school-age children.

Public-private partnerships. Linkages with public agencies to create child-care services are an attractive alternative for an operation of any size. Sharing costs with the state or federal government is a major incentive. The federal government subsidizes child care with the dependent-care tax credit, social-services block grants, and a child-nutrition program. Sources of support at the state and local levels also show great promise. Local programs supplement federal programs and administer their implementation. For example, New York State's Department of Social Services

administers grants from the federal government that will fund expenditures of up to \$100,000 for minor renovations, equipment, and supplies. Those grants are publicized through local chambers of commerce. Companies can apply for them by submitting a grant proposal; they must establish a nonprofit entity to receive the funding.

The federal government also subsidizes child-care costs of low-income families who are on or have just gone off welfare. The recent legislation on child-care-and-development block grants, passed in 1991, made available subsidies for low-income families that are not on welfare but are at risk of going on welfare. To be eligible, a person must be working or in a training program. Hotel and restaurant hourly-wage earners may be able to meet on-site or near-site day-care tuition through the program, possibly alleviating the need for the company to subsidize the cost. A company can also assist its employees by simply giving them the information. Many employees may not know they are eligible to receive federal subsidies.

Innovative public-private arrangements can be effective and mutually beneficial. For example, the Twin Towers Hotel and Convention Center in Orlando, Florida, collaborated with its local school board to open up a satellite school at the hotel. Both parties benefit. The school district, which was facing capacity constraints, gained an additional location, and the hotel contributed the real estate, utilities, and the children's lunches. The hotel gained an on-site public school and after-school program staffed by public-school teachers for its employees' children in pre-K, kindergarten, and the first grade. Parents benefit because they are near their children and only have to pay for the after-

Three Hawaiian hotels combined resources to fund a joint child-care center, and that investment has enhanced the properties' employee-recruitment efforts.

school program. Spearheaded by the hotel's managing director, John Holmes, the program is credited with reducing turnover and increasing morale.

Other public-private arrangements are being encouraged legislatively by local communities through zoning and development regulations. Policy makers have introduced legislative initiatives and developer bonuses that either require developers to provide child care or give them incentives to do so. A leader in this type of linkage is San Francisco, which requires office-building and hotel developers either to provide child care for employees who work in the buildings or to contribute to a city fund that will be used to increase the supply of affordable child care for low-income and moderate-income workers.¹⁴

Supplying Information

Instead of providing child-care services, a firm may elect initially to provide information. That may be done by giving the task to existing community-based referral networks, which are nonprofit groups that provide information on types of child care available and possible openings. Or the firm could have a full-time child-care administrator on staff to provide similar information. Marriott's nationwide resource and referral program, Child Care Choices, provides parents with professional help in locating affordable child care.

Providing information is the most popular child-care benefit. It can be a low-cost option and it may serve more employees than the other options, because not all parents want to place their children in day-care centers. Some parents prefer to leave their

children with relatives or in family day care that is nearer home.

Even simply giving out information has drawbacks. Referral systems don't help people who are living in areas where little day care is available, and they generally don't help those who need part-time care or care during odd hours. The typical day-care center and family day care that are open for traditional working hours do not help the employee who works night shifts or odd hours or has a long commute. Consequently, depending on the demographic characteristics of the employees needing day-care assistance, money spent on this alternative may be wasted because it may not meet your employees' needs.

Financial Assistance

Instead of, or in addition to, providing services or information, an organization can assist financially in several ways.

Flexible spending accounts. Flexible spending accounts are the most common, and perhaps least costly, assistance program. This benefit, created by tax legislation, allows employees to pay for child care with before-tax dollars rather than after-tax dollars. By using pre-tax dollars to pay for benefits, an employee reduces taxable income and therefore income tax. (Employees must choose between a flexible-spending account and the IRS's day-care tax credit. In some cases, the account offers a greater benefit than the tax credit.)

Company benefits. Companies offering the flexible-account option to employees benefit because they pay less in social-security, workers'-compensation, and unemployment-insurance taxes. Those savings to a company, which can average around 10 percent of employees' child-care expenditures, often cover the start-up and administrative costs of the pro-

gram.¹⁵ The flexible-spending-account choice is popular because of its low cost and easy administration. Many companies—for example, Marriott, General Mills, International Dairy Queen, and McGuffey's—offer such accounts.

The drawback is that the rules controlling the accounts are restrictive. Employees can enroll in the program only once a year, and they have to predict closely what their child-care costs will be to have the right amount of money set aside (if they overestimate, they forfeit that excess amount). To appreciate the program and make the best use of it, they have to understand its tax implications. The employer's human-resources office should be prepared to assist employees in gauging their need for such an account.

Cafeteria benefit plans.

Cafeteria benefit plans recognize employee diversity. A true cafeteria plan allows employees to select the benefits they want while allowing the company to control its level of contribution. Employees can allocate money to cover their child-care expenses rather than fund other benefits. Two-worker couples benefit the most, because they can eliminate duplicate coverage. The company has more control over its expenses and at the same time meets the diverse needs of its employees. For example, a cafeteria plan can be used to meet the costs of employer-provided day care without raising the question of employee equity. This benefit structure has been implemented only by large organizations, but recent innovations and tax legislation should improve its availability. Many companies are restructuring their benefit system to adopt this flexible approach.

Subsidies and discounts.

Firms may also subsidize employee

¹⁴Donald J. Peterson and Douglas Masengill, "Childcare Programs Benefit Employers, Too," *Personnel*, May 1988, p. 58.

¹⁵Thomas and Thomas, p. 31.

child-care costs by paying child-care providers directly or by reimbursing the employee an agreed-upon amount. Such a benefit is usually limited to certain income groups or ages of children. For example, BBD Consultants, a 20-unit Burger King franchisee based in Grand Rapids, pays employees a subsidy of \$1 an hour, up to \$32 a week, for child care.¹⁶

Direct subsidies raise the issue of unequal treatment. Also, both the employer and the employee must be careful to treat direct subsidies appropriately for tax purposes. The employee must treat them as income, and the employer must treat them as taxable wages.

Sometimes the benefit takes the form of a discount that is negotiated between a company and certain community centers or large day-care chains. Brinker International (parent company of Chili's, Romano Macaroni Grill, and Regas Grill) offers certain employee discounts through contracts with La Petite Academy, a Kansas City-based day-care chain, and Children's World Learning Centers, a 500-unit organization owned and operated by ARA Services. This form of financial assistance primarily benefits those who live near the child-care chains, and the costs may still be too high for certain employees.

Taking the First Steps

Introducing a child-care-benefit program may seem like a radical step. However, in the face of compelling demographical statistics and competition from employers that do offer such programs, you may have little choice. Where



Despite the evidence that values the availability of child care is low, support from senior management is crucial and can make a difference in retaining quality personnel.

you do have a choice is in designing a program that will best suit your company's or individual property's needs. Marriott, for example, provides many programs at its corporate headquarters, but at the property level the choice of involvement is up to the general manager.

Deciding on a program does require some information gathering, and perhaps an outside consultant's help. The primary prescription for a successful program is commitment from the person at the top, whether it's the general manager at the property level or the CEO at the corporate level. That individual must stand behind the program.

To date, the supply of corporate-sponsored child care has been low, despite the evidence of pressing need. That paradox is explained by Dana Friedman of the Families and Work Institute: "The workplace does not have an environment that is conducive to speaking up about family problems. Some employees fear reprisals or even dismissal. Furthermore, most decision makers are from the diminishing 'traditional family'—now less than 10 percent of all families."

Support from senior management is crucial and can make a difference in retaining quality personnel.

Having secured that commitment, your next step is to identify your employees' preferences and your own objectives. Friedman suggests that the selection process is often more complex than managers anticipate and usually requires the assistance of a consultant. Assessments of company needs, employee preferences, and community resources can be time-consuming. However, that

level of involvement is necessary to create a cost-effective program that benefits all parties.

Brainstorming with key employees, networking in the community, and having discussions with your human-resources director or a consultant can result in an innovative program customized to your needs. The resources to assist companies in program development are easily located. There are child-care consultants across the country that offer many services, from help in establishing a resource and referral program to help in creating and operating an on-site child-care facility. Local chambers of commerce and departments of social services can also offer information about state and federal funding. Some large companies have created full-time work-and-family positions with the strategic initiative to investigate and plan programs to meet the employer's and employees' needs. Donna Klein, director of work and family life at Marriott Corporation, has such a job.

Global competition, productivity demands, demographic trends, and social changes will inevitably result in a corporate imperative to accommodate the family. Those who want to be employers of choice are leading the way with innovative family-friendly policies that work for all. **CQ**

¹⁶Bill Carlino, "Operators Woo Employees with Day-Care Programs," *Nation's Restaurant News*, 25, No. 27 (July 15, 1991), p. 1.